

# FISCAL NOTE

**Bill #:** HB148

**Title:** Provide actuarial funding for retirement systems

**Primary Sponsor:** C. Lambert

**Status:** As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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## Fiscal Summary

	<b><u>FY 2006</u></b> <b><u>Difference</u></b>	<b><u>FY 2007</u></b> <b><u>Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$1,237,000	\$1,240,000
State Special Revenue	\$849,000	\$848,000
Federal Special Revenue	\$588,000	\$587,000
Other	\$784,000	\$808,000
<b>Revenue:</b>		
Other – Pension Trust Funds	\$6,494,000	\$6,645,000
<b>Net Impact on General Fund Balance:</b>	(\$1,237,000)	(\$1,240,000)

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact    | <input type="checkbox"/> Technical Concerns                       |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached             | <input checked="" type="checkbox"/> Needs to be included in HB 2  |

## Fiscal Analysis

### ASSUMPTIONS:

#### **All Systems**

1. This bill increases the employer contribution to the respective retirement systems to keep the systems actuarially sound, as required by the Constitution of Montana.
2. The increased contributions provided by this bill will sunset when the system's unfunded liability can be amortized over a period equal to or less than 25 years.
3. Total membership is assumed to remain stable.
4. All state payroll expenditures and funding are determined using the state's budgeting system, MBARS. Other payroll information and contribution projections are developed using data from PERS.
5. K-12 school amounts are determined by using growth rates of two percent in the amount chargeable to the retirement levy. All school funds are assumed to grow at 3.9 percent, which is PERS' assumed rate.
6. The countywide school fund costs are shared by the state, 27 percent, and county levies, 73 percent.
7. Montana University System Current Unrestricted fund costs are shared by the state, 43 percent, and tuition and other university funds, 57 percent. Increases in MUS Auxiliary and Research programs are funded with fees and research grants, respectively.

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8. Local agencies include city and county governments, conservation districts, water and sewer districts, and other local government entities. Funding for these entities is a mixture of mill levies, fees and charges and other sources.

**Public Employees' Retirement System (PERS)**

9. University payrolls are computed using MBARS for Current Unrestricted funds and the remainder is assumed to grow at 3.9 percent per year. PERS provided data on FY 2004 covered payroll for local government employees, which totaled \$402,645,896. Local government payrolls are assumed to increase 3.9 percent annually.
10. Employer contributions will increase from 6.9% to 7.56% effective July 1, 2005. This results in a 9.56%  $((7.56\% - 6.9\%)/6.9\%)$  increase in the employer contributions for employee retirement.
11. The second half of the phased in plan will increase employer contributions 8.23% effective July 1, 2007.

<b>PERS Funding</b>	<b>FY 2006 Current Law Required Contribution</b>	<b>FY 2007 Current Law Required Contribution</b>	<b>FY 2006 Additional HB 148 Contribution</b>	<b>FY 2007 Additional HB 148 Contribution</b>
State				
General Fund	9,259,000	9,250,000	886,000	885,000
State Special	8,675,000	8,669,000	830,000	829,000
Federal	6,097,000	6,086,000	583,000	583,000
Proprietary	3,290,000	3,287,000	315,000	314,000
<i>State Subtotal</i>	<i>27,321,000</i>	<i>27,292,000</i>	<i>2,614,000</i>	<i>2,611,000</i>
Montana University System				
Current Unrestricted – General Fund	1,390,000	1,387,000	133,000	133,000
Current Unrestricted - Other	1,842,000	1,839,000	176,000	176,000
Non Current Unrestricted - Other	3,035,000	3,286,000	290,000	314,000
<i>Montana University System Subtotal</i>	<i>6,267,000</i>	<i>6,512,000</i>	<i>599,000</i>	<i>623,000</i>
K-12 Schools				
General Fund	1,840,000	1,877,000	176,000	180,000
County Levy	4,975,000	5,075,000	476,000	485,000
Federal	1,408,000	1,592,000	135,000	152,000
<i>K-12 Schools Subtotal</i>	<i>8,223,000</i>	<i>8,544,000</i>	<i>787,000</i>	<i>817,000</i>
<i>Local Government</i>	<i>21,768,000</i>	<i>22,617,000</i>	<i>2,082,000</i>	<i>2,163,000</i>
<b>Grand Total</b>	<b>63,580,000</b>	<b>64,965,000</b>	<b>6,082,000</b>	<b>6,214,000</b>

**Sheriff's Retirement System (SRS)**

12. Per PERS, FY 2004 covered payroll for county employees totaled \$25,695,349. Payrolls are projected to increase by 5.5% annually.
13. Employer contributions will increase from 9.535% to 10.735% effective July 1, 2005. This results in a 12.59%  $((10.735\% - 9.535\%)/9.535\%)$  increase in the employer contributions for employee retirement.
14. The second half of the phased in plan will increase employer contributions to 11.935% effective July 1, 2007.

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<b>SRS Funding</b>	<b>FY 2006 Current Law Required Contribution</b>	<b>FY 2007 Current Law Required Contribution</b>	<b>FY 2006 Additional HB 148 Contribution</b>	<b>FY 2007 Additional HB 148 Contribution</b>
State				
General Fund	64,000	63,000	8,000	8,000
State Special	39,000	39,000	5,000	5,000
Federal	34,000	34,000	4,000	4,000
Proprietary	12,000	12,000	1,000	1,000
<i>State Subtotal</i>	<i>149,000</i>	<i>148,000</i>	<i>18,000</i>	<i>18,000</i>
<i>Local Government</i>	<i>2,727,000</i>	<i>2,877,000</i>	<i>343,000</i>	<i>362,000</i>
<b>SRS Grand Total</b>	<b>2,876,000</b>	<b>3,025,000</b>	<b>361,000</b>	<b>380,000</b>

**Game Wardens' Peace Officers' Retirement System (GWPORS)**

15. Per PERS, FY 2004 covered payroll for university employees totaled \$822,349. Payrolls are projected to increase by 4.25% annually.
16. Employer contributions will increase from 9.0% to 9.24% effective July 1, 2005. This results in a 2.67%  $((9.24\% - 9.0\%)/9.0\%)$  increase in the employer contributions for employee retirement.

<b>GWPORS Funding</b>	<b>FY 2006 Current Law Required Contribution</b>	<b>FY 2007 Current Law Required Contribution</b>	<b>FY 2006 Additional HB 148 Contribution</b>	<b>FY 2007 Additional HB 148 Contribution</b>
State				
General Fund	1,266,000	1,264,000	34,000	34,000
State Special	539,000	539,000	14,000	14,000
Federal	34,000	34,000	1,000	1,000
Proprietary	5,000	5,000	0	0
<i>State Subtotal</i>	<i>1,844,000</i>	<i>1,842,000</i>	<i>49,000</i>	<i>49,000</i>
Montana University System				
Current Unrestricted – General Fund	15,000	15,000	0	0
Current Unrestricted - Other	20,000	20,000	1,000	1,000
Non Current Unrestricted - Other	45,000	48,000	1,000	1,000
<i>Montana University System Subtotal</i>	<i>80,000</i>	<i>83,000</i>	<i>2,000</i>	<i>2,000</i>
<b>GWPORS Grand Total</b>	<b>1,924,000</b>	<b>1,925,000</b>	<b>51,000</b>	<b>51,000</b>

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**FISCAL IMPACT:**

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Expenditures:</u>		
Personal Services	3,282,000	3,303,000
K-12 Schools Local Assistance	<u>176,000</u>	<u>180,000</u>
TOTAL	3,458,000	3,483,000

<u>Funding of Expenditures:</u>		
General Fund (01)	1,237,000	1,240,000
State Special Revenue (02)	849,000	848,000
Federal Special Revenue (03)	588,000	587,000
Proprietary Funds (06)	316,000	316,000
University Funds – Tuition and Other	<u>468,000</u>	<u>492,000</u>
TOTAL	3,458,000	3,483,000

<u>Revenues:</u>		
Other (09) - Pension Trust Funds	6,494,000	6,645,000

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(1,237,000)	(1,240,000)
State Special Revenue (02)	(849,000)	(848,000)
Federal Special Revenue (03)	(588,000)	(587,000)
Proprietary Funds (06)	(316,000)	(316,000)
University Funds – Tuition and Other	(468,000)	(492,000)
Other (09) – Pension Trust Funds	6,494,000	6,645,000

**EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:**

1. Local agencies include city and county governments, conservation districts, water and sewer districts, and other local government entities. Funding for these entities is a mixture of mill levies, fees and charges and other sources.
2. Personal services expenditures will increase for local government as well as state government.

<b>Summary of Local Impacts</b>	<b>FY 2006</b>	<b>FY 2007</b>
County and city levies and other charges and fees	2,425,000	2,525,000
Countywide school retirement levies	476,000	485,000
School federal funds	135,000	152,000
Total Local Impacts	3,036,000	3,162,000

**LONG-RANGE IMPACTS:**

1. The increases shown in this fiscal note for the 2007 biennium will approximately double in the 2009 biennium, when the second half of the contribution increase goes into effect.

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2. It is estimated that the increase in employer contributions in all systems will be necessary for a minimum of 6 years. The Public Employees' Retirement Board (PERB) will review the increase in employer contributions and when the actuarial valuation determines that the period to amortize the systems' unfunded liabilities is less than 25 years, the PERB will propose a decrease or elimination of the increase.
3. The increased employer contributions will sunset after the retirement systems are able to pay unfunded liabilities off over 25 or fewer years.